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VISESTARN,  
KWANCHANOK



**LYNN UNIVERSITY**

**TOPIC : OPPORTUNITIES TO INVEST IN CHINA**

**GRADUATE PROJECT SUBMITTED TO:  
PATRICK F. BUTLER PH.D.**

**MIM 665  
GRADUATE PROJECT IN INTERNATIONAL  
MANAGEMENT**

**BY:  
KWANCHANOK VISESTARN**

**APRIL 13, 1995**





## THE PEOPLE'S REPUBLIC OF CHINA

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**Abstract :** As a result of the economic reform in china, the Chinese government needs a huge <sup>influx</sup> of foreign investments to modernize its market. This creates opportunities for foreigners to invest in this country. There are several factors affecting foreign companies' decisions in investing in China. Such factors are characteristics of market, distribution system, government restrictions on foreign trade and foreign investments, competition policy, price controls, and preferential treatment offered by government to foreign investors. Investments in many particular industries are encouraged by the government, especially infrastructure and telecommunication projects, since these industries have not yet been developed enough for the new open market policies. Forms and strategies to enter to Chinese market are discussed in this paper. The most favorite form of foreign investors is Chinese-foreign joint venture. An example of how existing company, Motorola, runs its business in China are also shown in the report.

# **OPPORTUNITIES TO INVEST IN CHINA**

## **I. INTRODUCTION**

China, "The sleeping giant of Asia" as Napoleon referred to it, stepped on the road of modern nation-building through a series of political, economic and social transformations which began in 1949 (Ryoshin Minami, 1993). Although economic development has been interrupted by political turmoil, the economic reforms have brought drastic changes to the Chinese economy. One indicator of the success of these reforms was the annual 10 percent growth rate of GNP in the 1980's and the substantial improvement in ordinary people's standard of living (Business America, February 1994). Since 1949, China has gone through several phases of foreign policy. It has become a major trading nation. China's economic growth rates have attracted more and more foreign companies to set up operations there. Foreign trade and foreign investment has performed important functions within the economy. In 1979, the People's Republic of China officially opened its door to foreign investors. In October 1992, the 14th National Congress of the Communist Party of China gave a new impetus to the process of economic reform in China by adopting the guiding principle of the, "Socialist market economy." This was to be an economy that remained socialist in nature, in the sense of maintaining a wide range of public ownership of assets, but in which resource allocation was essentially to be determined by market forces rather than by the government, while was the case in the past. It was therefore, intended to move to an indirect control of the economy. If reforms in China endure and an ASEAN's economic development is sustained, Asia will become the center of the world economy and the true, "Pacific Era" will emerge. Particular attention must be paid to China, as Asia's largest country with nearly a quarter of the world's population, what happens in China will not only influence the development of Asia as a whole, but it will also affect the world economy in general. Therefore, this research paper is designed primarily to identify opportunities for

foreigners who are interested in investing in China and in trading with Chinese people. The paper is also intended to help foreign businessmen in deciding as to whether the opportunities should be pursued or not.

## **II. A PROFILE OF THE INVESTMENT CLIMATE**

### **Geography**

China is located in eastern Asia, and includes many nearly islands. Its total area, including Mongolia is about 11,418,174 sq.km. (Republic of China Year Book, 1991-1992). It occupies more than one-third of the land area in Asia and about one-thirteenth the area of the entire world. Two major eastward-following rivers, the Yangtze and the Yellow River, along with many other rivers and lakes, provide the mainland, (particularly in the eastern portion), with much arable land. China can be classified into five regions :

1) Western China includes the Tibetan highlands and the Xinjiang - Mongolia region. These two areas make up almost 41 percent of China's land mass, and consist largely of deserts and mountains. Important oil discoveries have been reported in this region.

2) North East China contains the nation's most important industrial centers. Shenyang is the center of heavy industry. The Daging oil field and refinery are in this region, which also have important hydroelectric power stations on the Yalu and Songhua rivers. This area has considerable forestry resources, and its rich soil produces soybeans and cereals.

3) North China consists of plains that are intensively cultivated to produce wheat, millet, and other crops. The main industrial centers in this region are Beijing, Tangshan, and Tianjin. Agriculture machinery, textiles and steel are among the important products of the industrial cities.

4) South China includes the Yangtze river and the West River in Guangdong and Guangxi. The river plain is intensively cultivated and has the highest population density. Further downstream at the coast is Shanghai, China's largest city and commercial center. It produces of its most sophisticated light industrial products, and is its most important port.

5) Southwest China contains the Sichuan Basin-one of the most fertile areas of China. However, this region is separated from the rest of China by difficult terrain that has hindered the area's development.

### **Population**

In 1992, China's population approximately 1.2 billion population, with a 1.6 percent growth rate. Its birth rate was 22 births per 1,000 people. The Chinese people are generally said to belong to the yellow or Mongoloid race. Most Chinese speak Putonghua or Mandarin. The literacy rate in China was 73 percent-84 percent of males and 62 percent of females. The labor force of China was approximately 570,000,000 which can be divided into 60 percent involved in agriculture and forestry, 25 percent in industry and commerce, 5 percent in construction and mining, 5 percent in social services, and 5 percent in other sectors (Republic of China Year book, 1991-1992). Labor migration in China has increased, which has affected the population in a number of cities, such as Beijing, Shanghai, and Tianjin. However, migration to the cities is now slowing down as the rural industries are able to offer an alternative to employment in agricultural.

### **Living Standards**

Living standards are higher in the coastal areas than inland due to more advanced industrial development and the establishment of a larger number of foreign investment enterprises, particularly in the Special Economic Zones. Unemployment is found in the rural areas and this has caused a large number of rural inhabitants to move to the major

cities in search of work. However, as mentioned earlier, rural industries are now providing agricultural-related employment, therefore, migration to the cities has begun to slow down. The government intends to make efforts to improve the living standard of the people. In the past, over 80 percent of a family's income was spent on food and basic clothing (Price Waterhouse, 1993). However, the situation is now changing. As a percentage, food expenditure is expected to decrease. A slow rise in expenditure is anticipated, and sustained growth is forecasted for spending on household appliances.

### **Political System**

China is governed by the State Council, which is the executive organ of the National People's Congress (NPC). It is the highest level of State administration. There are 33 ministries, 8 commissions and various other governmental bureaus responsible for work in specialized fields under the State Council. It is responsible for drawing up and putting into effect the national economic plan and the State budget. The Chinese Communist Party (CCP) is the largest political party in China and has been the ruling political organization since 1949. The party plays a decisive role in formulating broad and detailed government policies and supervising their implementation at all levels of administration. In the past, CCP and the State have been virtually impossible to separate. Recently, efforts have been initiated to separate CCP from the government in terms of policy implementation, with the CCP being made responsible for policymaking and strategy.

### **Current Economic Overview**

The economy of China began in late 1978 when the Chinese leaders tried to move the economy from the sluggish Soviet-style centrally planned economy to a more productive and flexible economy with market elements that was still within the framework of monolithic communist control. State-owned enterprises are predominant

and are responsible for the highest production of total industrial outputs. However, cooperative and the private sector is increasing and is now beginning to account for a large proportion of total output than in the past. Compared to other nations, China's economic growth has been very high from 1988 to 1992. It was not only higher than low- and middle-income nations, but it was also ahead of the advanced capitalist countries (Business America, October 1994).

In recent years and particularly after the market reforms and the greater decentralization of economic decision - making, the Chinese economy has been strained by demand - pull and wage - push inflation. In 1992, the inflation rate reached 16 percent and it appeared to be accelerating in the first quarter. This inflation was fueled by ambitious development plans, deficit financing by the government, and easy money conditions in which the rate of interest was less than the rate of inflation. (Clement Tisdell, 1993).

A very important change in the direction of China's policy has been its opening up to the outside world and the increase in the reliance on international trade. The Chinese government has encouraged the foreign economic sector to increase trade and joint ventures. China's trade volume in the first half of 1993 hit a record high of 147.8 billion U.S. dollar. Enterprises with foreign investments saw an increase in imports and exports. The proportion of exports of foreign-funded enterprises to the country's total has increased from 19.8 percent to the 26.4 percent (Friedrich Wu, 1993).

Three types of business ownerships exist in China - private, co-operative (collective) and State. Private enterprises (mostly family-operated) are now widespread and dominant in agriculture, and are important in urban retailing, however, State-owned enterprises still preponderate in the industrial sector. Despite the continuing dominance of State-owned enterprises in the manufacturing industry, their share of industrial output fell from 80.8 percent in 1978 to 58.2 percent in 1990 (Clement Tisdell, 1993 ). At the same time, the share of the collective sector increased from 19.2 to 35.6 percent and the



contribution of the private sector (inclusive of foreign-owned enterprises) increased from virtually zero to 5.8 percent (Kiichiro, Fukasaku, 1994). Outside agriculture, public ownership either by the State or collective enterprises remain dominant.

### **III. BUSINESS ENVIRONMENT IN CHINA**

#### **Resources**

China is fairly well supplied with most minerals needed by a modern economy. Some minerals - antimony, magnetic, manganese, mercury, and tungsten- are produced in sufficient quantities to permit export sales. In addition, China is the world's largest coal producer, with verified reserves estimated at 900 billion tones (Price waterhouse, 1993). Coal provides about 95 Percent of China's fuel, and coal exports are an important source of foreign exchange. Despite such ample resources, nationwide energy shortages have been experienced, with poor infrastructure hampering production and distribution. While domestic demand for coal is increasing, with the country's fields supplying 70 percent of domestic energy needs, production has not been able to keep up with consumption growth.

Due to the rising demand in domestic consumption during the 1980's and a need to increase investment in the industry, China opened certain offshore fields to foreign investment. Many of the world's largest oil companies have entered into cooperative ventures with China's national petroleum companies. Foreign participation is still largely confined to the offshore fields. Onshore involvement has been limited, but is now slowly opening up to foreign investment.

#### **Infrastructure**

*Transportation* : China's transportation and communication systems have not received sufficient investment for development, but are now priority sectors. Major

transportation systems of China include railroads, highways, and coastal and inland waterways. Railroads are the main means of transporting goods in China, accounting for 59 percent of all freight carriers (Price waterhouse, 1993). Every province is connected to the railroad network by at least one main line. China also has international rail connections with Hong Kong, Mongolia, North Korea, North Vietnam, and Russia. Inland waterways also play an important part in the transportation network (Serge Verma, 1995). Water transport is of importance in coastal shipping and on inland rivers to locations not readily accessible by railroads or highways.

Roads and highways are still in need of modernization and development, but the construction of superhighways is progressing. More than half of the roads are of natural earth, and the remainder consist primarily of soil aggregates. Only a few thousand miles are sealed with bitumen or formed from concrete. After 1952, many new roads were constructed in the Western and Southwestern provinces. However, they are still insufficient, therefore, China needs more investment from foreign countries. Port and harbor development is also a priority in order to cope with an increase in foreign trade.

Due to inadequate domestic productions, China imports large quantities of transportation equipment, including ships, trucks, locomotives, tank cars, jet aircraft, and jet engines. Japan, Russia, and Eastern Europe as well as Western Countries are equally important suppliers of all types of transportation equipment to China.

*Telecommunications* : Telecommunications in China have improved considerably during the past few years, although the networks still remain extremely overutilized and are unable to meet the growing demand. Control of the means of communications is vital to political power, and in China, the government supervises all such facilities under the guidance of the leadership of the Chinese Communist Party. The responsibility for the operation of most facilities is delegated to the Ministry of Posts and telecommunications (Alexa C. Lam, 1994). The ministry operates the mails as well as telephone, telegraph,

telex, and facsimile services. It also operates international cables and through INTELSAT, the communications satellite services.

In comparison with other large countries, China's communication systems are limited. The number of telephones in use is closely related to a nation's per capita GNP - the distribution of telephones in China is about the same as the average level for low-income nations but only half of the number in use in the Philippines' and only one thirtieth of that in South Korea. Therefore, Chinese government has tried to attract foreign investment in this areas ( Price waterhouse, 1993).

### **Distribution System**

In the mid-1980s, China's economy operated under a *fenpei* system (Julie, Reinganum, Tina Helsell, 1994). *Fenpi* means distribution in the sense of allocation ; the State Planning Commission dictated overall production goals for factories throughout China (Julie Reinganum and Tina Helsell, 1994). Factories would be allocated a set amount of subsidized raw materials and funds to enable them to achieve those State-set production targets. Capitalist concepts such as marketing were nonexistent, and pleasing the consumer was not a priority.

Once a factory met its target production quotas, its goods were shipped to the Ministry of Commerce (MOC) Central Distribution Center, where they were classified in terms of origin and size. Producers and industrial ministries held bi-annual, regional product-ordering meetings to communicate orders to the distribution centers responsible for storing and shipping products. Under the three major distribution centers in Tianjin, Shanghai, and Guangzhou, numerous. second-and third-tier distribution centers handled products at the local levels. Within each of these distribution hierarchies, specific subdivisions handled different types of products.

The MOC, which was renamed the Ministry of Domestic Trade (MDT) in 1993, oversaw production of consumer goods. Only the MOC and its local bureaus., as well as

wholesale and retail outlets, including department stores, could distribute consumer products domestically. Products from one region would first be shipped to one of the tier-one distribution centers before being distributed back to local areas. Beijing founded this system in the belief that the government could allocate resources equitably and rationally by monitoring and controlling production and distribution. However, the central government could not determine and access local needs with any efficiency. At the local levels, excess of one product and shortages of others were common, and because production expectations were expressed to factories in terms of quantity only, quality suffered.

The old system's main flaw, however, was its rigid hierarchy. The wholesale network provided producers little or no contact with product end-users, so customer preferences were not considered when production goals were being set. Rather than looking down the chain to the end-user and his needs, producers were forced to seek approval from those above. Reflecting the inefficiency of this approach, factories commonly circumvented the wholesale network by purchasing supplies from neighboring firms rather than placing orders through the central distribution centers even before reforms were introduced.

Until relatively recently, foreign products entered the country only via State-run foreign trade corporations (FTCs), which would purchase and import foreign goods according to central directives. Beijing began to liberalize the FTC system in 1984, when central authorities first permitted foreign companies to deal directly with newly created import-export enterprises. What they did has shown the great opportunity for foreigners who were interested in exporting to China. Reform of the domestic distribution system began in 1986, when factories were allowed to begin selling goods directly to end-users. Before 1986, as much as 80 percent of all goods in China traveled through the State-run system. Since then the transformation has been gradual and is not yet completed. Today, some factories continue to sell up to 80 percent of their goods through the State network,

while others report that only 5-20 percent of their goods are bought and distributed by the State (Kym Anderson, 1994).

Most Chinese distribution companies today, have evolved from local and provincial beuteaus of the former MOC. Under the old system, the wholesalers transported and stored products through their own distribution centers. Today, they still control large warehouses, run fleets of trucks, and arrange train transportation. China's larger department stores are both retailers and distribution centers for wholesalers. These "Department wholesaler stores," were formerly the sole distribution agents for local retail shops. Wholesale department stores, such as Beijing No.1 and Shanghai No.2 department stores, still enjoy purchasing capacity and international market base in major urban centers. Large department store are particularly effective in selling consumer products such as personal care items and home appliances. While department wholesaler stores generally place orders at trade fairs, smaller shops must be contracted and distribution individually. Large quantities of goods are now reaching the smaller shops via new local distributors anxious. to compete for business. Old-style wholesalers at both the local and central levels, collective and private enterprises, and factories themselves now compete to distribute consumer products. Many local-level government distribution companies, on the other hand, are struggling. Their margins are being undercut by ambitious. domestic manufacturers who are setting up their own sales forces and distribution networks to get their goods from factories to stores.

At the same time, foreign freight companies, such as INT, East Atlantic, and their joint venture partners are buying and leasing trucking fleets to cobble together transportation networks to move parcels and products between major cities and are expanding inland. Though no foreign distribution specialists have yet set up foreign-invested services, several foreign consortia are reportedly exploring opportunities.

Most distributors still use railroads for long-distance shipping, but the rail system in China is closely controlled and priority is often given to goods that are still under tight

central government control, such as agricultural products and coal. Trucks provide viable local transportation and are regularly seen on the highways that have been constructed between major cities in the coastal provinces. There are many options to choose from when selecting trade transport. Many Chinese factories lease their trucks and drivers to other producers. Moreover, State-owned freight forwarders work with a number of foreign firms to move goods. Many U.S. exporters to China turn to freight forwarders that have offices in the United States and at the designated Chinese port to ensure that imported goods are properly transferred from ship to land transport.

China's distribution networks will continue to evolve along regional lines. Whether foreign companies want to export and sell their products in China through an independent Chinese distribution or set up their own manufacturing facility closer to the market, effectiveness in country representation is the key. Foreign companies seeking to sell in China should identify regional markets and then locate potential distribution agents or partners in those regions. Firms that can synthesize their marketing savvy with these Chinese partner's knowledge of local practices will foster an association that will result in increased market shares.

### **Chinese Market**

One of major changes in China's economic system has been its market reforms and its increased reliance on market mechanisms as a means for guiding economic decision-making. China has been successful in allowing strong supply responses to market incentives created by the open-economy reforms, despite these reforms being partial and incomplete. So far its reforms have proceeded furthest in relation to product markets. These days, China is in the news a lot as capitalism takes root and budding entrepreneurs strike it rich. Most companies believe that the time is right to get involved in China in a major way. Drawn by China's capable pool of low-cost labor and its growing potential as a market that contains 1/5 of the world's population, foreign

investors continue to pour money into China (Kym Anderson, 1994). China is the largest market, in terms of population, in the world. From blue-chip multinationals to Taiwan shirt-makers, businesses are jockeying for a position in what promises to become the globe's largest market.

Over the last 15 years, China has established markets for goods in which prices are determined by trade, not central planners. However, unlike Western capitalist systems, free entry into and exits from these markets are not guaranteed. In addition, clear rules and regulations required to prevent the abuse of market power have yet to be established. The markets which exist in China create rents for those with privileged access to them, and people with good *guanxi* or connections, can ensure that the rents accrue to themselves, the inevitable result is corruption. Economic reform in China is a continuous process. In November 1993, the Third Plenary Session of the 14th Central Committee of the Chinese Communist Party set the objective of establishing a "Socialist market economy" in the coming years (Kiichiro Fukasaku, 1994). The decision by the Central Committee Stated that the establishment of this structure aimed at enabling the market to play the fundamental role in resource allocations under macro-economic control by the State. The adoption of main planks of that objective would imply that the extension of the "Opening-up" process to the hinterland and go some way towards fulfilling the criteria of further development. One of the planks in the platform of the socialist market economy is the establishment of a nationwide integrated and open market system that would combine the urban market with the rural market and link the domestic market with the international market, so as to optimize the allocation of resources.

### **Overseas Trade Relations : Memberships in Trade Blocs.**

China is not currently a member of the General Agreement on Tariffs and Trade (GATT), but it is awaiting a membership approval. In actuality, China was a founder of GATT but left when the Communists took over control in 1949. It applied in 1986 to



rejoin the world free-trade group. GATT usually has to promise to cut import duties, increase opportunities for foreign companies and cut back controls that favor domestic industries. To aid its bid for membership, China has made a number of revisions to its trade system, which include abolishing export subsidies, making the foreign trade corporation responsible for their own profits and losses, abolishing the import adjustment tax, and reducing tariff on certain items.

## **IV. FOREIGN TRADE AND FOREIGN INVESTMENT RESTRICTIONS**

### **Foreign Trade Restrictions and Trade Barriers**

China's foreign trade is subject to central planning and is conducted principally through the foreign trade corporations, which are under the control of the ministry of Foreign Trade and Economic Corporation. After decentralization began in 1979, provincial and local authorities took advantage of their new autonomy to import foreign goods, especially items that satisfy consumer demands ( The central authorities were alarmed by this trend and in 1982 reimposed central control over imports of such consumer products as motor vehicles, television sets, and watches) However, a relaxation caused trade deficits of foreign exchange, so controls tightened once again. The new policies were designed to protect China's developing consumer goods by posing import tariffs. Moreover, the government could manipulate prices and exchange rates to control trade volume and composition. Preferred exporters were able to use a favorable exchange rate to settle their accounts with foreign trade organizations, while other importers and exporters were given a less advantageous interest rate.

In July 1992, The Ministry of foreign Economic Relations and Trade, lowered its tariff in conformity with GATT. Fledgling industries will be protected in accordance with GATT regulations for developing nations(Preston M. torbet, 1994). Since April 1992, the government has abolished import permit requirements. A new foreign trade law has been introduced to clarify import laws, and this planned easing of restrictions will be implemented to increase foreign investment.

In accordance with an overall plan of the State council, China's reform of its foreign trade system this year and next year will be a major advance. It will involve reforms in the taxation, finance, investment, state planning and foreign exchange administration sectors. Strengthen the reform of China's foreign trade system, China will adhere to a unified policy, give management a free hand, ensure fair competition and self-

responsibility for profits and losses, coordinate industry and trade and push ahead with the agent system (William H. Overholt, 1994). The aim of this reform is to set up a foreign trade operational mechanism which is consonant with international economic norms. The reform includes the following steps :

(1) The government will adjust its foreign trade activities through economic measures such as the exchange rate, taxation, and credit. It will reform its export and import management systems, abolish mandatory planning and reduce administrative intervention, and will exert control over a small number of commodities, which will be suited to public bidding for quotas, auctions and regularized distribution. China will adopt policies to encourage exports, and pursue credit policies beneficial to the development of trade. In addition, China will accelerate foreign trade legislation and administer its foreign trade in line with relevant laws in a bid to keep appropriate foreign trade management in order.

(2) China will strengthen the reform of its foreign trade enterprises and reorganize its state-owned foreign trade enterprises in light of the modern enterprise system. China will grant more foreign trade rights to production enterprises, science and technology institutions and some commercial, and raw materials enterprises which are able to meet State requirements.

(3) China will perfect a foreign trade coordination service system and give full play to Chambers of Commerce in the fields of export and import.

(4) China will maintain State foreign trade policies and systems.

Regarding payment delays, although the government highly values its good credit record, Chinese enterprises were delaying payments or trying to renegotiate contracts with foreign suppliers, due to currency shortages. Dispute also arose about the terms of the letters of credit. The Chinese government took steps to provide its corporations with forward covers. A few delays occurred, but the government moved to remedy them in

order to restore confidence. At present, payment delays present only minor difficulties to foreign suppliers.

Foreign trade has become largely decentralized and a large number of import/export corporations have been authorized to conduct overseas trade. Exporters, particularly of manufactured goods, are encouraged to participate in export-oriented projects to help enhance the country's foreign exchange earnings and to improve the balance of trade. Special investments are offered to foreign companies participating in export-oriented enterprises if they are able to meet certain requirements. These are mainly in the form of tax incentives; additional preferential treatments are available if they are located in the designated special investment zones which will be discussed later in the paper. With the exception of certain items subject to State export restrictions, most products exported by foreign investment enterprises are exempt from export duties and consolidated industrial and commercial tax. Products manufactured and exported by a foreign company in order to balance its foreign exchange, does not require export licenses; they are provided within the approved scope of the enterprise and are not subject to an export licensing control. Importantly, foreign-investment enterprises have made a significant contribution to China's export sector, accounting for nearly 20 percent of the country's total export value of 1991 (Price Waterhouse, 1993).

### **Trade Barriers**

For international companies that are interested in exporting to China, they should take the Chinese import restrictions for granted. China's import regulations are controlled through import licensing and commodity inspection. Restrictions are placed on specified items in accordance with the country's needs and foreign exchange positions. Current policy is to restrict imports of non-essential or non-priority items in order to control inflation and the country's foreign exchange expenditure. These items, which include certain electronic goods, televisions, and other consumer goods, are subject to very high

customer duties. As a result, import licenses need to be obtained. Approval is required from the relevant government authorities for all items to be imported and these will be subject to customs duties at varying rates. Imports are basically classified into the following categories (Price Waterhouse, 1994) :

1) ***Contraband goods*** : These include articles, materials, publications, etc., of a pornographic, reactionary or superstitious nature, and gambling devices. Import licenses will not be issued for these items.

2) ***Restricted goods*** : These items are subject to State planning, and approval must be obtained before an import license will be issued. However, if items on the list of restricted goods are to be imported by foreign investment enterprises for export production, then the requirement for an import license is waived.

3) ***General goods*** : General goods includes all items that are not classified as contraband or restricted by the State. If these goods are imported by an entity that is not an authorized import entity, then an import license is still required. The foreign partner to a joint venture may import unrestricted machinery, equipment, spare parts, raw and other materials without applying for an import license if they form part of its capital contribution or if they cannot be sources in China and are required for the venture's production. The import license requirement under approved processing, assembly, compensation trade, or construction contracts is included where approval has been granted by the relevant authorities.

Foreign trade corporations authorized to engage in the import business are issued with general licenses that allow them to import items within their approved scope and limit and not restricted by the State. It is necessary to use the services of an authorized local import and export agent when exporting goods to China (Larocque, Alain, 1994).

## **Foreign Investment Restrictions**

The Chinese government has been trying to reduce its restrictions on foreign investment lately. To attract foreign investment, the Chinese government offers various forms in order to acquire foreign technology, equipment and know-how; these include barter trade, compensation trade, processing arrangements, joint ventures, and wholly foreign-owned enterprises. Among these forms, the best way and least risky is to enter China in the form of Chinese-foreign joint venture.

***Restrictions on Foreign Ownership.*** With the exception of a small group of radicals, leaders agree that China needs the technological and financial assistance of the industrial world. The Chinese government permits 100 percent foreign ownership in industries that are not prohibited or restricted by the State. For example, foreign ownership remains prohibited in the defense industry and insurance. Any totally foreign-owned firms which are conducive to development of China's economy and capable of achieving remarkable economic benefits are allowed. In this respect, the authorities are fairly restrictive and selective in granting approval to wholly foreign-owned enterprises. In addition, the enterprise must satisfy either of the following requirements :

1) It must use advanced technology and equipment, develop new products, be economical with respect to energy and new materials, upgrade and replace existing products, or produce products that can be substituted for imports or

2) The value of the products it exports each year must account for more than 50 percent of the total value of all the products produced during the same year, and a balance between foreign exchange revenue and expenditure or a surplus of foreign exchange revenue must be achieved.

It would appear that, in practice, the above requirements have been relaxed to a limited extent. Wholly foreign ownerships are permitted to hire their own presidents and managers. They may bring in all of their workers from outside the country, but it is rarely feasible to do so (Maruyama, Nobuo, 1993). Restrictions are also imposed on the

assignment of land-use rights. Foreign investment enterprises that acquire land-use rights may only use the land for the purpose that it has been approved for.

Foreign investment enterprises may repatriate their profits from China subject to certain restrictions, as follows :

1) Profits can only be repatriated through Bank of China if they are in foreign exchange certificates. If the profit is distributed in renminbi, it can only be converted into a foreign currency with the written consent of The State Administration of Exchange Control (SAEC), and is generally very difficult to obtain.

2) All the prior year's losses have to be cleared.

3) All relevant taxes have to be paid.

4) The required contributions have to be made to the, "Three funds," namely the staff bonus and welfare fund, the enterprise expansion fund and the general reserved fund.

Profits earned by a foreign enterprise with a permanent establishment in China is subject to income tax. However, it will not be subject to withholding tax when the profits are repatriated. While the withholding tax on profits remitted abroad by foreign investment enterprises have now been waived, foreign companies without permanent establishments in China are subject to a withholding tax of 20 percent on interest, rental, royalty, and other income sources in China, unless the rate of tax is reduced by a double taxation treaty. Therefore, foreign companies interested in China should consider the forms of business enterprises opened to them.

### ***Restrictions on Foreign Capital and Technology***

*Capital* : All capital contributed to an enterprise by a foreign investor, which by statute is required to be at least 25 percent of the total investment of equity joint venture, must be registered with the appropriate authorities (Price Waterhouse, 1993). Any increase assignment or other disposal of the registered capital of a foreign investment enterprise must be approved by the original examination and approval authority. In March 1987, new rules were introduced on the ratios of registered capital to total



investment for equity joint ventures, cooperative ventures and wholly foreign-owned enterprises. The ratios are as follows (Price Waterhouse, 1993) :

<u><b>Total investment</b></u>	<u><b>Ratios</b></u>	<u><b>Minimum registered capital</b></u>
Under U.S.\$3 million.....	0.7:1	70% of total investment
Between U.S.\$3 and 10 million.....	1:2	U.S.\$2.1 million
Between U.S.\$10 and \$30 million.....	2:5	U.\$\$5 million
Over U.S.\$30 million.....	1:3	U.S\$12 million

The parties to the venture will share the profits, risks, and losses in proportion to their respective contributions to the registered capital. Each party to a joint venture may make its investment in cash, in kind, or its industrial property rights, etc.

*Technology agreements* : Technology agreements, which cover the licensing of the use of patents and trademarks and the provision of technical consultancy services and technical know-how, require prior approval from the Ministry of Foreign Trade and Economic Corporation. There are limitations placed on the amount of technology that the foreign partner may contribute as part of the joint venture's capital. The technology and the equipment that serves as a foreign joint venture's investment must be advanced technology and equipment that actually suits China's needs.

*Restrictions on Operations.* Totally foreign-owned firms are permitted to hire their own presidents and managers as mentioned earlier. A company's board of directors is allowed to choose the president, who normally is Chinese. Greater freedom has been promised to alleviate problems arising from the requirement that such firms hire Chinese workers through the local management board. They have had to pay the officially set wages and can discharge workers only with the approval of the local labor board.

Firms with foreign participation generally are required to pay for imported materials or parts with their own foreign exchange holdings, instead of borrowing hard

currency from the Bank of China. When suitable and available, domestic materials are supposed to be used, but standards of suitability and availability differ. In September 1991, the government issued new regulations permitting foreign funded-firms to borrow abroad without obtaining permission in advance. However, they are required to register any loan agreements they sign and accept government supervision to ensure adequate debt repayment.

***Restriction on Repatriation.*** Wholly foreign-owned enterprises and foreign partners in joint ventures must pay a 10 percent tax on profits remitted to their own countries (Republic of China Yearbook, 1991-1992). Joint ventures that export more than 70 percent of their output, pay only half the percent rate of profit tax. The offshore oil regulations permit the repatriation of profits and the export of a foreign operator's crude shore, except during the war. Much depends upon how a contract is written. Greater preferential treatment may be offered to foreign corporations that agree to reinvest rather than repatriate their profits. However, restrictions will be eased gradually to encourage foreign investment.

In short, although there was a falloff in foreign investment resulting from the Tiananmen Square incident, it picked up again in 1991 as fears of further instability within China arose. The Chinese government has speeded up the liberalization process and reduced obstacles to make the country more attractive to foreigners.

### **Foreign Exchange Controls**

The State Administration of Foreign Exchange Control (SAEC), which is under the People's Bank of China (PBOC), regulates the flow of foreign exchange in China and controls all foreign exchange expenditure and outward remittances. China is a developing, socialist country with an undeveloped economy and a shortage of foreign funds. To further open itself to the outside world, it needs foreign exchange to pay for imports and for advanced foreign technology, to repay capital with interest for utilizing

foreign capital, to extend aid to other countries, and to cover all kinds of international contracts. Therefore, China has adopted the policy of centralized control and management of foreign exchange. It has strengthened its planning and control of foreign exchange so that limited foreign funds can be pooled together by the State to be used in economic and trade exchange with foreign countries in a planned way, and that foreign exchange can be appropriate according to plans. Moreover, efforts will be made to increase revenue and save expenditures in order to achieve a balance of foreign exchange receipts. With more than 30 articles, the regulations comprise the following seven chapters :

- General provisions
- Exchange control relating to State organizations and collective economic units.
- Exchange control relating to individual
- Exchange control relating to foreign representations in China and their personnel
- Exchange control relating to enterprises with overseas Chinese capital, enterprises with foreign capital, and Chinese and foreign joint ventures and their personnel.
- Exchange control relating to carrying foreign exchange, precious metals and payment instruments in foreign currency into and out of China.
- Supplementary provisions.

Foreign investments are translated into the local currency at the exchange rate prevailing at the time of inward of investment. Investments can be made either in cash or in kind and the value of the capital contributions must be certified by a Chinese certified public accountant. Foreigners are required to use foreign exchange certificates (FECs) in place of the local currency, renminbi, although enterprises with foreign investment may conduct their transactions in renminbi inside China. As foreign enterprises are not considered to be Chinese legal entities in the China, they are not permitted to use renminbi or to use renminbi bank accounts.

In addition, in the past, currency inconvertibility was a serious problem for potential investors. Moreover, enterprises with foreign investments are expected to keep a balance between their foreign exchange incomes and expenditures. In order to assist enterprises with foreign investments to convert renminbi earnings into foreign exchange, the government has established approximately 100 exchange adjustment centers. These centers, which are generally known as **swap centers**, are government organizations controlled by the PBOC and the SAEC that allow foreign investment enterprises with surplus renminbi earnings to convert them into foreign exchange with other foreign investment enterprises, and vice versa, at a free-market exchange rate without their having to wait for an allocation from the central or local authorities.

The Government's Administration of Foreign Exchange Control is permitted to make daily adjustments to the exchange rate, effectively transforming the renminbi yuan into managed, floating currency. In order to accommodate foreign investors, the government has unified its current dual track foreign system starting on January 1, 1994. The new unitary and controlled-floating exchange rate system has been based on the market demand and supply. The government will also publish the yuan's rate against other major currencies according to current rates on the world financial market, and the central bank will try to balance the demand and supply of hard currencies and stabilize the renminbi yuan exchange rate through economic means such as monetary policies and interest rates. To rebuild investor confidence, the government will ease restrictions to the extent that foreign exchange reserves permit. Officials indicate that the gap between the official exchange rate and the swap rate quoted by the Foreign Exchange Adjustment Centers (FEACs) will be reduced through further devaluation.

## **Competition Policy**

The majority of China's industries are State-owned. Therefore, a number of industries are closed or restricted to foreign investment. The small number of enterprises or individuals that make up the country's private sector are generally in the retail industry and do not compete with State industries, but they still play a supplementary role. Foreign investment enterprises, whether in the form of Sino-foreign joint ventures or wholly foreign-owned enterprises, are more likely to be approved in industries that are encouraged by the State or those that need to be upgraded in terms of technology or product quality, or if the enterprise is able to market all or the majority of its products outside China.

The government's overall policy is to encourage foreign investment in sectors that are targeted for development and that require modern technology, such as energy, communications, infrastructure, and wharves and harbors. In addition, current aims are to control inflation, attain balanced growth and improve general living standards.

Foreign acquisition of a Chinese enterprise would not be permitted in China. With approval, foreign investors may acquire the share of a Sino-foreign joint venture or a wholly foreign-owned enterprise.

## **Price Controls**

As a result of pricing reforms, China's pricing systems has gradually become more market oriented. Although fewer products are now subject to price control, State control continues to be exercised over basic domestic goods and necessities, such as foodstuffs (Frederick Crook, 1994). Generally, the products sold by foreign investment will not be subject to price restrictions. However, for goods sold on the domestic market, certain categories of products will be subject to State pricing guidelines. The amount of latitude given to an enterprise in establishing the domestic State price for a product that comes under the guidelines will depend on the category in which the product falls.

### **Trend of Government Policy**

China's current policy is to continue to encourage foreign investment in the priority areas and industries in order to acquire foreign exchange and foreign technology, equipment and know-how. In this respect, emphasis is still placed on encouraging investment in the special economic zones, 14 Coastal Cities, and in the sectors targeted for development, i.e., communications, energy, infrastructure, harbor, etc. A number of measures have recently been taken to improve the investment environment for foreign companies; these include the promulgation of the unified foreign enterprises income tax law in July 1991 (Marayama, Nobus, 1993), a relaxation of price controls and the gradual adjustment of the official exchange rate to reflect the market rate.

Fewer restrictions are placed on the establishment of joint ventures than on wholly foreign-owned enterprises due to the local involvement, although the latter are now being looked upon more favorably, particularly if they are invested in priority industries. All enterprises with foreign investment are required to balance their foreign exchange income and expenditure. In general, projects that introduce new technology or upgrade existing technology or those that are export oriented are most likely to receive approval.

Setting up a investment project in China requires careful planning, particularly in such areas as foreign exchange balancing, Chinese-foreign joint ventures, exports to China, raw-material sourcing, marketing, and distribution, and the taxation of different types of projects and activities.

## **V. FOREIGN INVESTMENT AND TRADE OPPORTUNITIES**

### **Local Competitor Attitude Toward Foreign Investment**

In order to acquire foreign technology, capital and know-how, Chinese state enterprises recognize the importance of entering into joint ventures with foreign enterprises. Wholly foreign-owned enterprises are normally approved only if they are "conducive to the development of China's national economy." Foreign investment is vital to China's modernization and development and all-foreign-funded projects have to obtain prior government approval. Generally, it is more difficult to obtain approval for projects that are not in the priority sectors and there are a number of industries in which foreign investment is restricted or not permitted.

### **Direct Investment, Joint Ventures and Transfer Technology**

With its opening up to the outside world and its adoption of modernization goals, China has encouraged foreign direct investment in industries and in some sectors, such as communications, infrastructure, and energy. In 1988, foreign direct investment in China was far in excess of that in any other low-income countries, but fell substantially in 1989 after the student demonstrations. By 1991, it was increasing strongly again. The climate for business has improved substantially since tighter restrictions were imposed. Recognizing the importance of foreign investors in providing vitally needed capital and modern technology, the Chinese government continues to encourage their participation's in the country's economic development.

Additionally, China's ability to attract foreign investment is largely contingent on its capacity to upgrade its infrastructure. The country's dearth of good highways, its antiquated railroad and port facilities hamper trade and industrial growth at every turn. The government, like the foreign companies trying to do business in China, is well aware of these many problems. Officials know that massive improvements in the transportation,



communication, and energy sectors are needed if the PRC is to become a true global economic power. To expedite these changes, Beijing in the last few years has opened these sectors in varying degrees to foreign participation.

However, further market liberalization is necessary to convince foreign investors that they can earn returns on massive infrastructure investments. Current disincentives to foreign investors in infrastructure sectors include State-controlled prices of certain goods, prohibitions or restrictions on foreign investment in some areas, and foreign exchange balancing requirements. Until Chinese officials address these problems, foreign interest in Chinese projects will remain high, but the amount of foreign capital actually invested will be far lower than needed.

According to a recent survey conducted by Hong-Kong-based Peregrine Brokerage Ltd., China will need at least \$233 billion from 1994-2000 to modernize its transport, power, and telecommunications system. Of this amount, \$111 billion is needed just to develop the country's railways, highways, seaports, and airports to cope with the demands of the rapidly expanding Chinese Economy (Robin J Gibbons, 1993). Modernizing China's power sector will require \$66 billion, and the country's telecommunications industry will need some \$56 billion. One US analyst has suggested that a tally of all the infrastructure investment plans drawn up at the central, provincial, and local levels would likely exceed \$600 billion by the end of the century (Alexa C. Lam, 1994).

### ***Energy : Power Plant***

China is in the midst of a major overhaul of its electric power generating network. According to Ministry of Power Industry officials, China will need to add 17-20 new power plants each year to reach Beijing's goal of 300 GW of generating capacity by the year 2000. (Robin J. Gibbons, 1993). Central, provincial, and local authorities are actively seeking direct foreign investment in the sector.

For foreign suppliers and financiers, these plans add up to huge opportunities. To date, the majority of power stations in China are domestically operated and utilize Chinese technology and equipment. Perhaps as much as 90 percent of the power plans in operation were built with domestic funding, which came primarily from China's specialized banks (The Bank of China, The Industrial and Commercial Bank of China, and The People's Construction Bank of China.) or local international trust and investment operations (ITICs) ( Robin J, Gibbons). Power stations built with direct foreign investment are still relatively rare. For the most part, despite enormous interest from foreign companies, few matches have been made between local and foreign partners for power projects. Sales of foreign technology to Chinese power plants have been more common, with many sales financed through export credits. Some power plant equipment sales have also been financed through concessional (lower than commercial rate) loans from developed countries. To smooth the investment, foreign companies seeking to obtain financing for direct investments in China's power sector should enlist a financial package in the feasibility study (Wood, Andrew; Young, Ian, 1994). Once the financial structure has been negotiated and approved, the Chinese is likely to be willing revisit the question of funding, especially if they may be asked to provide greater support than the envisaged in the joint venture agreement.

### ***Transport : Ports and Railroads***

*Ports* : Options for foreign participation have been dramatically expanded in the past 2 years. Foreign firms can now invest and participate in the management of joint venture wharves and ports, and are permitted to set up wholly foreign-owned enterprises to build and operate special-purpose wharves and waterways. Between 1987-1993, foreigners invested an estimated \$230 million in port construction in China (Alexa C. Lam, 1994). In recent years, 90 percent of such investment have gone toward container wharf projects (Horowitz, Rose, 1994). A number of foreign companies that invested in real estate development, power plants, and manufacturing projects have been permitted to

build special-purchase-wharves to cater the shipping needs of their mainline projects. In addition to coastal ports, China is looking to improve inland waterway transportation. The Yangtze River is a prime target, as it accounts for over 70 percent of total inland waterway freight tonnage.

*Railroads* : China's railways carry 70 percent of the country's cargo and 60 percent of its passengers. Construction and upgrading of China's railways has therefore been listed as a top priority. The pace of railway construction is picking up, as the ministry spent {Y}12.11 billion ( \$1.4 billion) just in the first half of 1994 to lay 697 km of new lines and double-track another 621 km. (Alexa C. Lam., 1994). Railways construction enterprises have been exhorted to use advanced technologies and import highly efficient machinery and equipment to speed up construction.

According to Peregrine Brokerage Ltd., over \$48 billion Will be spent between 1994-2000 on railway investment. The project's massive funding needs suggest that the government will have to make special concessions in order to acquire financing. Capital contributions are expected to come from large- and medium-sized State enterprises along the route ; railway ministries in Shanghai, Beijing, and Tianan ; local governments ; and foreign investors. To attract foreign expertise and financing, Chinese government is considering permitting Sino-foreign joint ventures to develop station areas and land adjacent to the stations. The government is also tentatively exploring eliminating price controls to let prices respond to market demand, rather than continue the present policy of artificially depressed user fees. With greater freedom to participate in railway development, foreign companies should be looking at providing the latest signaling and track-control equipment, and should also consider investing in the construction, operation, and management of railroads, stations, and land adjacent to the rail lines.

Clearly, Beijing will not be able to provide such vast sums itself. China's success in developing its infrastructure will depend in large part on its ability to attract foreign investment to finance key projects. Even the Ministry of Post and Telecommunications,

which has regularly stated that foreigners are not permitted to engage in the management or operation of China's telecommunications networks, announced in mid-May 1994 that it would need to acquire funds through local authorities, domestic borrowing, and overseas sources if it is to meet its goal of \$50 million in new telecom investment in the Ninth Five-Year Plan (1996-2000).

Such proclamations represent a major shift in official policy on foreign investment in infrastructure development. Traditionally, Beijing controlled construction and operation of all infrastructure sectors. Foreign investors were generally barred from investing in the construction of power plants, roads, and ports. Beijing, recognizing that foreign capital was needed to augment State-allocated investment funds for purchases of advanced technology and equipment, began opening the door to foreign investment in infrastructure projects in the early 1990s. Since then, the foreign investments have been welcomed to those sectors.

As a result, many multinational corporations (MNCs) have already operated in China to revise radically their view of the country's opportunities and redouble their efforts to capitalize on its potential. From the survey of McKinsey & Co., Inc., an international management consulting firm, 14 MNCs (eight industrial companies and six consumer goods enterprise) have a significant presence in China from July - September 1993 (Stephen M. Shaw, Johannes Meir, 1994). All of these firms are regarded by China-watchers as successful. More than half are earning a return on sales of 10 percent or more from their China-based businesses. These companies are not in China to take advantage of its low labor costs and then jump to another country when development inexorably drives these costs up. These companies are there for the long haul. They have already figured out how to make profits and sustain them over time, and are working to lock out slower-moving competitors. In particular, they are focusing on effectively managing key local partners, keeping their business systems simple, and laying organizational foundations for a national presence.

However, some ventures proved so troublesome that participants lost their initial enthusiasm unreliable partners, low sales volumes, scarcity of local managerial talent, and problems with local corruption and all contributed to decisions by these foreign firms to limit or at least sharply decelerate future investment in China, but most of the foreign companies took such frustration in stride, viewing them as an unavoidable part of the learning process in a complex and unfamiliar familiar environment. After a few years, these companies made explicit, strategic decisions to move beyond the experimental stage. In practice, these firms' activities involve rapidly expanding both the number and the size of their China ventures. Accordingly, they plan to raise their invested capital in the country from an average \$50 million per MNC today to more than \$200 million within three years (Stephen M. Shaw, Johannes Meier, 1999). Therefore, All these development plans have created opportunities for investors.

### **Joint Ventures and Technology Transfer**

Chinese-foreign joint ventures have already occurred and are common in China. This type of investment can result in the introduction of new techniques by foreigners. Equity joint ventures are said to have played "an important role in easing fund shortages, introducing advanced technology and management methods, training personnel, and increasing exports. With view to expanding international economic cooperation and technical exchange, China permits foreign companies to join with the Chinese companies in establishing joint ventures in China in accordance with the principle of equality and mutual benefit and subject to approval by the Chinese government.

The proportion of the investment contributed by the foreign joint ventures will generally not be less than 25 percent of the registered capital of a joint venture. The technology and the equipment that serves as a foreign joint venture's investment must be advanced and must enable the joint venture's product to have marked socioeconomic benefits domestically or to be competitive in the international market. A joint venture that

possesses advanced technology by world standards can apply for a reduction of or exemption from income tax for the first two or three profit-making years. The foreign joint venture that reinvests in China its share of the net profit may apply for refund of a part of the income taxes already paid.

For purchasing required raw materials, fuels, or parts, the joint venture can purchase them directly from the international market with foreign exchange raised by itself. The joint venture is encouraged to market its products outside China. Export products may be distributed to foreign markets through the joint venture directly, through associated agencies, or through China's foreign trade agencies. Products of the joint venture may also be distributed in the Chinese market.

China is still in its early stages of economic development and, like Japan before it, may well make substantial gain from international transfer of technology (Ryoshin Minami, 1993). Also, it should be remembered that the majority of high income countries continue to obtain substantial benefits from international technology transfer. The long-term success of an international joint venture depends upon benefits being received by all the parties to the venture. All must gain more by co-operation than by going it alone. Actually, technology transfer can be an important benefits to both Chinese and foreign partners. However, the focus of technology transfer will be more on benefits to foreign investors. The main benefits to the foreign joint venture from operations in a host country, China, may be one or more of the following (Clement Tisdell, 1993) :

- 1) Transfer of technology with lessened risk.
- 2) Access to a large market for products in China.
- 3) Assured supplies of commodities in accordance with own specifications and at lower cost of production than is possible elsewhere. This lower cost may, for example, arise partly from cheap labor in China.
- 4) Increased and continuing information about additional trading opportunities.
- 5) Special potential consideration denied to a sole foreign venture.

Through the joint venture, the risk of both parties to the technological transfer can be reduced. Another advantage may be better access for the overseas joint venture to Chinese market because Chinese partners know better how the product should be modified to suit the local market. It may also be agreed that the foreign joint venture will be allowed to import some products. Furthermore, depending upon arrangements, there may be a chance for foreign joint venturer to promote the brand name of its product.

It may be that the main aim of the foreign joint venturer is not so much to gain access to China as a manufacturing base for exporting product either to its home country or to associated countries, where the overseas joint venture has an established brand name, distribution and marketing networks and so on. The foreign joint venture's main purpose is to have a cheap (e.g. because of low labor costs) and reliable source of supply of the manufactured product available for sale outside China.

Exports from China may be required, for example, for markets in developed countries. In such a case, it is important that the product be manufactured so as to meet the requirements of foreign purchasers in say, the USA. In this matter, the overseas parent of the joint venture is likely to be much better informed than its Chinese partner. By being involved as a joint partner within China, The overseas joint venture can often gain information about additional business opportunities in China, and improved knowledge about the workings of the political and administrative system. Increased knowledge is obtained about possible future business partners and the reputation of the joint venturer can be better established in the host country. Information gathering can be very valuable side-benefit for the overseas firm involved in business operations in another country.

Additionally, because of local equity or sharing in the joint venture, the host country will treat foreign joint venturer more favorably than foreign enterprises which are solely foreign-owned. Moreover, the Chinese partner will be of assistance in dealing with difficulties which may arise in dealing with government administration. Importantly, the



Chinese government protects the investment of foreign joint ventures, the profits due them, and their other lawful rights and interests in the joint venture.

Therefore, the importance of foreign investments to China is that it has an economic value and it is a source of new technologies and methods. Foreign aid and investment have had a stimulatory effect on the Chinese economy and led to an increase in output, a higher quality of goods, and improved standard of living and higher levels of employment. Special economic zones, open cities and regions have played a role in china's bid to attract foreign direct investment and technology and develop the country.

### **Exports to China : What Chinese Consumers Want ?**

How important is foreign trade to the Chinese economy? In China, the ratio of foreign trade (total exports and imports) to GDP is about percent (Kiichiro, Fukasaku, 1994). China most important trading partners (as measured by total commodity exports and imports) are Hong Kong (29 percent), Japan (18 percent), and the US (10 percent). These three trading partners account for about half of China's foreign trade (Wu, Friedrich, 1993). Throughout the last decade, the availability of quality consumer goods, imported or domestic, rarely kept up with demand and ability to pay. Quality and quantity often fell short of consumer's expectations despite government's emphasis on increasing and improving light industrial goods production. Chinese consumers frequently left untouched large quantities of shoddy, domestically-made consumer durable (like fans, washing machines, refrigerators, and TV sets), opting instead for more expensive, high quality foreign goods whenever possible (Tattum, Lyn, 1993).

The main consumer durable available and purchased in China in the 1980s were bicycles, sewing machines, watches, radios, and white TVs. As of mid-1990, although some Chinese consumers continued to purchase these basic products, demand for them had largely been satisfied and consumers wanted and could afford more trendy durables. These include color TVs (20-25"), VCRs, quartz watches, washing machines,



refrigerators, Western clothing, fashionable shoes, and cosmetics. Chinese factories were only able to meet some of this demand - much of it had to be satisfied via imports. Consumers developed increasingly sophisticated ways of obtaining the goods they wanted, but could not find in China's major cities. These include making "business" trips to Shenzhen city to purchase imported consumer products; asking officials returning from overseas to bring in certain goods; or having foreign visitors buy items requiring hard currency for them in Friendship stores.

***Changing Consumption Patterns*** : Consumer durables purchased in 1994 versus those purchased in 1988 showed the following changes : Television sets skyrocketed over 600 percent; alcoholic beverages 276 percent; bicycles 250 percent, and watches 130 percent. Cigarettes, shoes, and sewing machines were up 94 percent, 74 percent, and 53 percent respectively. Radio sales actually fell 44 percent (The People's Republic of China Is One of The Fastest Growing Economies in The World, 1994).

***Rural vs. Urban Consumers*** : Urban residents generally had a greater percentage of their income left over after consumption to spend as they wanted. Nevertheless, the rural figure was also slowly increasing over the last decade (see table below).

	<u>1988</u>	<u>1994</u>
Total income per capita (in Rmb)		
Urban	762	1,747
rural	191	545
consumption per capita (in Rmb)		
Urban	468	1,281
Rural	173	479
Savings as a percentage of income		
Urban	39%	27%
Rural	9%	12%

Possession of all types of consumer goods in fact increased more sharply in the Chinese countryside than in urban areas. The reason is straightforward: Urbanities had already purchased and owned goods that only began to enter the rural economy in the 1980s. Urban possession of color TVs rose nearly 40 times between 1990-1994, while ownership of black and white sets fell 18 percent. Although urbanities owned more consumer goods than did rural dwellers, virtually all items available in the cities were available in the countryside, albeit in smaller quantities.

***"Hot" Consumer Goods*** : The two items most advertised are color TVs and VCRs. It is no coincidence that although Peking has tried to cut color-TV and VCR imports drastically, Hong Kong's anti-smuggling Marine Police discover these products most often when they catch a vessel illegally exporting goods from the territory into China. A significant number of Chinese consumers must have the cash to buy these top-of-the-line items or smugglers would not risk sneaking them into the country. Thus, the needs of these consumer goods of the Chinese have created the opportunities for producers who are ready to export their products to China.

### **Special Investment Opportunities : Incentives**

To attract foreign investment, the Chinese government has offered various forms of preferential treatment and incentives, which are generally determined by the type of investment and location designated special investment zones, which were primarily created to improve the balance of payments, assist the development of China's industrial base, and provide exposure to Western market practices, offer a variety of incentives to the foreign investors.

***Regional incentives*** : Since 1979, china has selected certain regions and cities as special investment zones for potential foreign investors. The key special investment zones are categorized as follows (Price Waterhouse, 1993):

\* Special Economic Zones (SEZs) were established in Shenzhen, Zhuhai, Xiamen, and Shantou, and more recently on Hainan Island. They are the areas in which the Chinese government hopes to attract extensive foreign investment for development.

\* 14 Coastal Cities include Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guanzhou, Zhanjiang, and Beihai. These are also the Economic and Technological Development zones (ETDZs).

The preferential income tax rates offered in the SEZs and the ETDZs and the 14 Coastal Cities are as follow (Price Waterhouse, 1993):

1) SEZs : The government reduced income tax rate of 15 percent for enterprises with foreign investment and for foreign enterprises

2) 14 Coastal Cities - ETDZs : Reduced income tax rate of 15 percent for enterprises with foreign investment that are of a productive nature.

In addition to the tax incentives listed above, the SEZs and 14 Coastal Cities has offered the investors a relatively flexible environment in which to operate, improved infrastructure facilities, and preferential treatments in the areas of land use, labor, and custom duties.

***Industry Incentives*** : Special incentives are offered to enterprises with foreign investment that qualify as export-oriented and technologically advanced enterprises or to those investing in special industrial sectors, such as energy, communications, infrastructure, and harbors, as mentioned earlier. The major tax incentives offered to them are as follow (Price Waterhouse, 1993):

1) For enterprises with foreign investment that qualify as export-oriented enterprises, a 50 percent reduction in the income tax rate for each year they are able to export 70 percent or more of their products in terms of production value, with a minimum income tax rate of 10 percent.

2) For enterprises with foreign investment that qualify as technologically advanced enterprises, a 50 reduction in the income tax rate for an additional three-year period, with a minimum income tax rate of 10 percent.

In addition, qualified export-oriented enterprises that export more than 70 percent of their products and technologically advanced enterprises may be granted exemption of local income tax. Nontax incentives that may be granted to foreign investors include a reduction or exemption of land use fees and other incentives, as mentioned under "Regional Incentives" above.

## **VI. HOW FOREIGN INVESTORS ACCESS CHINESE MARKET ?**

### **Strategies to Enter to China**

After 20 frustrating years of alternating optimism and pessimism, the elusive promise of the Chinese market at last seems for real. Among major countries, China is the fastest growing in the world. This dynamic growth can be attributed largely to China's policy of reforming its economy and opening up to the outside world, which began in 1979. Rapid growth and massive infrastructure plans point to enormous market potential in China. Many businessmen no longer think of the China market as an intriguing sideline. Now, they regard doing business in China as something they must do. They regard it as a fundamental part of their business strategy. For example, AT&T signed a memo of understanding to cooperate with China in 11 areas of telecommunications and network computing, and completed joint-venture negotiation at the end of 1993 (Neumeir, Shelly, 1993). McDonnell's is another example. McDonnell's opened second unit in Beijing in April 1992. Additionally, among the chains opening new units in China were Carl's Jr. (Bertagnoli, Lisa; Cheney, Karen, 1992).

Are we being overly optimistic about China's future? Undoubtedly, there are enormous opportunities, but there are also substantial risks. A foreign companies

considering investing in China must first decide why it wants to be in China and what types of risk it is willing to take. Assuming that a company believes the potential opportunities outweigh the risks, These are 7 basic strategies to follow :

***Learn about China.*** Only companies actually doing business in China gain an understanding of the subtleties of Chinese culture and business practices knowledge necessary to avoid costly mistakes. One US. company learned the hard way that it should have paid more attention to local customs when it launched its local office's operations on China's grave-sweeping holiday. Local residents and officials avoided the grand opening, believing the date to be an inauspicious time for the American company to be setting up operations. Additionally, foreign companies should delegate somebody to watch what the Chinese buy. This data must be obtained from non-Chinese export statistics (e.g. of West Germany, the U.K, etc.). The OECD trade statistics is also a good resource.

***Convince Yourself.*** The right sort of public relations can attract good business partners, government officials, and investors, and help build a market, too. Launching a public relations campaign extolling, your company's virtues over other foreign companies will raise your profile and help convince government officials and prospective business partners that your company has the best mix of technologies, marketing skills, and management capabilities for local conditions. In addition, having the right contracts can impart a favorable impression of your company's capabilities, even if your firm has yet to set up local operations. Some of the most successful foreign companies in China have been known to hire local personnel to represent their interests at government and industry functions. Visits by CEO can be particularly helpful in establishing personal contacts with government and business leaders.

***Establishing A Local Presence.*** Whether or not a company is ready to invest in China venture, in most circumstances establishing a local office or even a small scale export or import venture can demonstrate corporate commitment to China. Having a local presence also gives the foreign firm a track record upon which to build, usually a plus in

the eyes of the Chinese government and potential partners when the time comes to commit to a more substantial long-term investment (Maynard Roberta, 1994).

***Exchange Hostages.*** In this strategy, a foreign company invests in two joint ventures at the same time with the same Chinese partner, only one venture is located in china, while the other is in the foreign partner's home country. IF Chinese government expropriates the foreign partner's China investment, the foreign company would at least be left with a claim against its partner's investment abroad. In all likelihood, the Chinese partner adopting this approach would also enjoy greater bargaining power in minor disputes with its Chinese venture.

***Limit Your Financial Stake.*** Minimizing your equity investment in China helps reduce exposure to both political and business risks (Doug Randall, Piero Tilesio, 1994). The foreign party's contributions to a Chinese venture can consist of technology, management skills, and experience, rather than just cash. Companies pursuing business in China have a growing number of financing options at their disposal. If the investment is large enough and the local partner is a State-owned enterprises, the Chinese government might issue financial guarantees for the project.

***Befriend The Government.*** Since the Chinese government plays an important role in business decisions, foreign companies have to prepare themselves to be ready to encounter with the government regulations. The primary challenge in the China of tomorrow, however, may be figuring out which government leaders to befriend. In the country that a strong central government controls the economy, foreign investors without close ties to Beijing run the risk of not receiving adequate utilities, labor, or even market access. Therefore, companies need to keep a close eye on political development and should not neglect a Chinese leader who falls from grace, as he could be back in power in the future. For example, a foreign telecommunication company may create a strategic partnership with the State-owned telephone monopoly in order to become China's preferred foreign supplier.

***Make Yourself Important.*** The more important your business is to China's economy, the more the government is vested in your firm's success. Foreign businesses in essential industries such as telecommunications and energy can survive in China. Foreign firms can make themselves indispensable by ensuring that their investment upgrade an entire industry sector, rather than a single plant.

However, wise investors have to be careful not to give away too much too quickly. A US pump manufacturer recently learned the danger of transferring advanced technology too readily to its Chinese joint venture. After the joint venture started manufacturing in the US company's proprietary line of pumps, The Chinese partners promptly introduced a competing line of similar products, which sold at a fraction of the joint venture's prices (Maynard Roberts, 1994). Foreign companies should maintain tight control over critical technologies, products, and skills to keep their products at the cutting edge of the Chinese market.

### **Entry Strategies for Foreign Retailers**

Foreign retailers seeking to sell in China currently have a number of options which which to break into the market.

***Retail Joint Ventures.*** State-approved department stores have received the most publicity of any form of foreign involvement in China's retail sector. These joint ventures generally are notable for their ambitious size and scope and their ability to import directly. Unless the State Council-approved stores receive exemptions or concessions from China's high import tariffs, the right to import directly does not appear to be much of an advantage right now; other stores are able to acquire imported goods at cheaper prices by using South China traders who navigate the gray market to bring goods in at reduced rates or duty free.

***Retail Arms of Manufacturing Joint Ventures.*** Some of the most successful retail outlets in China are those that have been opened by manufacturing joint ventures,



such as Crocodile and Mexx. These outlets offer the quality and prestige of a foreign product, but at lower prices than imports. Because China does not allow wholly foreign-owned ventures in the retail sector, some foreign companies that seek to penetrate the sector establish manufacturing joint ventures which in reality do only a bit of processing; the store constitutes the bulk of the investment, as opposed to a sideline (David Ho, Nancy Leign, 1994).

**Franchising.** Franchising seems to be an increasingly popular way of entering the China retail market, as it shields the foreign company from the currency risks and involves comparatively little capital outlay. Generally, the foreign company provides the products, along with ideas, training in management, marketing, decoration, and service strategies, while the Chinese company bears all operating risks. Many of the fast-food chains opened in China, such as Dairy Queen, operate on a franchise basis. As franchising is still a relatively new phenomenon in China, however, there are no special laws governing this investment vehicle and protection of intellectual property is a particular concern. In addition, the franchiser has relatively little control over how goods are displayed and priced, and can do little to ensure high customer-service standards are enforced.

**Distribution/consignment.** Entering into distribution arrangement with a Chinese company enables foreign companies to avoid Chinese taxes and large capital outlays, but also generally gives them less control over how their products are priced and sold. Companies not wishing to invest directly but concerned about presenting a uniform image for their products, therefore, may choose to sell their goods on a commission basis. The most common way to do this is to rent space in a large department store or in a shopping mall attached to a foreign joint-venture hotel. Typically, the foreign company supplies the goods and the store supplies management personnel and conducts sales in return for a commission.



Other options for foreign companies seeking to penetrate the retail market include entering into long-term management contracts and establishing joint-operating enterprises. The former involves selling one's name to an existing retailer and managing its operations while the latter allows a foreign-invested enterprises already in China to set up a retail enterprise with another Chinese partner. The resulting joint venture is considered a domestic, rather than foreign entity. Such enterprises are not allowed to import or export directly, however, and their tax and legal status is unclear.

## **VII. HOW EXISTING FIRMS RUN THEIR BUSINESSES IN CHINA : CASE OF MOTOROLA**

Motorola Asia Ltd, a subsidiary of US-based Motorola, believed that the key to success in the PRC is manufacturing in the country. As a result, Motorola has been negotiating in Tianjin since 1988 (Neumeir, Shelley, 1993). Naturally, each of the company's divisions is plugging to manufacture its products at the Tianjin venture, fearing that products not made in China may be at disadvantage in entering the Chinese market. Using the wholly owned venture for high-tech manufacturing, Motorola's various divisions established joint ventures elsewhere in China to complete final assembly work. The company plans to raise skill and technical levels at the joint ventures, so the ventures can do some of their own manufacturing. Although Motorola is in the business of manufacturing products - not selling technology - it recognizes a need to balance this tradition with its drive to reach certain markets.

### **Current PRC Presence**

Motorola has 3 representative offices in China - in Beijing, Shanghai and Guangzhou. Although Motorola does not have any foreign staff permanently based in the PRC now, it will in the future. At present, employees from Hong Kong manage the

offices on rotating assignments. Nowadays, Motorola's Chinese sales of cellular phones and pagers jumped from \$100 million in 1992 to \$ 750 million, or about 5 percent of total revenue in 1993 (Motorola Annual Report, 1993). The company does provide an on-going service out of Hong Kong, regularly dispatching field engineers to clients. Guangdong is the largest market, taking more than half of the country's sales, followed by Shanghai and Beijing. Government officials are typical end-users.

Cordless telephone sales to China also show promise. Several Chinese organizations, such as the mail and telecommunications bureaus, are exploring the investment involved in setting up a cordless system. Motorola installed its first cordless telephone system in the PRC in 1991. The firm also sees potential for selling data transmission systems, which generally are the next step after voice systems (like two-way radios). Their introduction to China currently is being held back by two factors : The technology first must be adapted to accommodate Chinese characters, and a central communications network needs to be set up.

### **PRC Cellular Market Profile**

Motorola designed and manufactured cellular systems which it sells to local telecom authorities. Motorola believed the less densely populated areas having major potential. In the countryside, for instance, installing a wireless cellular system can be less expensive and less-time consuming than putting in a wire-line telephone system. It will be sometime, however, before people in rural areas have the disposable income to afford even a bottom-of-the-line mobile cellular phone unit. In the meantime, Motorola will target urban centers where government officials and private entrepreneurs are the major users of cellular phones.

### **Motorola Competes with Ericsson to Set Up PRC Cellular System**

Competition for putting in cellular systems in the PRC is fierce, and firms price aggressively. While the market is not large enough, MNCs believe it hold huge long-term potential and are willing to make pricing concessions in order to get their foot in the door. Sweden-based Ericsson and Hong Kong's Pacific Link Communication donated a system to Beijing which Motorola considers its major competitor for cellular systems in the PRC. Ericsson's participation in the digital switching business gave it a leg up in cellular sales since the company was able to make the right connections earlier. Ericsson installed China's largest cellular system in terms of number of subscribers in Guangzhou in 1987 and now has the most systems in place in the PRC. Guangdong is the biggest market for cellular subscriber equipment in China, which Sell attributes to its heavy involvement with Hong Kong, where cellular phones are widely used. However, Motorola has had considerable success in the North. It put in Shanghai's main system about three years ago and Peking's first system at about the same time. Moreover, it is stronger than the Swedish company in subscriber equipment, says Sell.

Although cities can easily accommodate more than one operator or competing sets of equipment, Sell finds this practice in China a bit strange given that the Chinese government owns and operates all the PRC's cellular systems. The most likely reason: The government does not want to be dependent on one supplier and assure itself the best deal possible by making firms compete with each other.

Motorola not only sells and installs cellular systems, it also trains Chinese technicians on installation, operation and maintenance. Training is all part of the package Motorola offers its Chinese customers. Motorola also plans to expand repair facilities in the PRC as the number of cellular systems there increase, and already has set up one repair depot in Guangzhou. When Motorola sells a cellular system to the PRC, it typically sells phone units with it. The Chinese like package deals: Not only do they get an overall price discount, but they also find it easier to buy everything in one go instead of having to

keep asking for funding and approval. Another feature is that Motorola must provide products it does not make - such as antennas, towers and cables- to close a deal in the PRC.

## **VIII. CONCLUSION**

Since the open-door policy came into effect 15 years ago, the climate for business has improved substantially. New investments from Japan, South Korea, Singapore, Hong Kong, Taiwan, US, and Canada began shifting to China. In 1992, international investment contracts in China reached an unprecedented \$57.5 billion. (Maruyama, Nobuo, 1993). Changes stemming from China's reform and liberalized policies are attracting foreign capital. China has also continued to liberalized imports through tariff reduction. Not only is foreign investment booming, but so is trade. Recently, China announced 210 large projects in 23 industries seeking foreign technology and equipment between 1993 and 2000. The cost of imports for the projects is expected to total \$30 billion. Additional spending on infrastructure development, business opportunities appear especially promising in the energy, telecommunications and transport sectors. Therefore, Given china's economic growth and new investment climate, a lot of foreign companies are taking the attitude " If we don't go into China now, we'll get left behind, and if you do not want to get left behind, you should take China into your first consideration as the most potential market for your investment.

## **Annotated Bibliography**

Alexa C. Lam, "Infrastructure Investment Tips," The China Business Review, September-October 1994, p.44-50.

From this article, I got information about infrastructure investment projects that China needs from abroad. The Chinese Government has taken some important steps to support modernization of China's infrastructure, since the country's dearth of good high ways, and facilities will hamper trade and industrial growth. Obstacles in investing in China's infrastructure were also mentioned in this article, so I think this article is very good because it showed me both positive and negative aspects in investing in china.

Anonymous, "The Chinese Economic Area: A big Emerging Market," Business America, October 1994, Vol. 115, Iss. 10, P. 18-19.

This article contained information about how important the Chinese market was. It is one of the major trading partner for the U.S. This market has its own characteristic and contains significant commercial opportunities which confirmed me that there are enough opportunities to become a driving force for U.S. and other countries trade and investment strategies. In addition, this article showed me why Chinese economy has grown rapidly.

Anonymous, "Canadian Expertise Brings China into The 1990s," Canadian Business, July 1994, Vol. 67, Iss. 7, P. ss12-ss14.

I got the supporting idea from this article that was talked about capital inflow to China from other countries including Canada after China opened up its domestic markets to overseas trade. Canadian companies are rushing off to gain a foothold in 4 of the fastest-growing sectors - financing, high-tech, telecommunication and retail. Since I did not specify certain country interested to invest in china, I used this article as a general and supporting idea in my paper.

Anonymous, "The People's Republic of China Is one of The Fastest Growing Economics in The World," Business America, February 1994, Vol. 115, Iss. 2, p.14-15.

This article provided me with very good information on China's policy of reforming its economy and opening up to the outside world. It showed the success of China after the Chinese government announced many large projects in major industries seeking foreign technology. It also showed business opportunities for foreign investors in infrastructure, transport, telecommunication sectors because China gave priority to these areas. In addition, potential for US exports to China has been increased, since the Chinese have a high demand for US. goods. This article was included almost every section in my paper, and it come to the same conclusion as the paper I mentioned earlier.

Anonymous, Republic of Chin Year Book, 1991-1992.

This book is very good, although it is too old. I got information regarding national statistics which was not usually revealed. This source contained several aspects of China, such as political, society, culture, and economy. Although it was not used as a major source, it gave me some ideas and statistics needed to support the whole paper.

Bertagnoli, Lisa; Cheney, Karen, "Burger Chains Sizzle with Activity, Restaurant & Institutions, July 8, 1992, Vol.102, Iss.16, p.62-66.

This article I found information about American fast-food restaurants entering into China. These restaurants are McDonald's Burger King, and Carl's Jr.

Clement Tisdell, Economic Development in The Context of china, 1993

This book is pretty good and up to date. It talked about China's economic development and international perspective. I could get the idea how important of joint venture is. Joint venture give benefits to both parties, Chinese and foreign partners. Technology transfer is also the benefit from joint venture which China needs from foreign investors. Therefore, China has encouraged this form of investment.

David Ho, Nancy Leign, "The Retail Lowdown," The China Business Review, January-February 1994, p.24-25.

This article was included in the entry strategies section within the paper. It explained clearly how foreign investors could enter retail market in China. Foreigners have to be careful in selecting the means to enter, since selecting the right vehicle for participation in the Chinese market is no easy matter. I think this article is very useful for investors to decide which way will be the most effective.

Doug Randall, Piero Tilesio, 'Planning Ahead,' The China Business Review, January-February 1994, p.14-18.

This article provided me with information on risk-management strategies in doing business in China. It showed not only the opportunities but also the risks that investors should take into consideration when they decide to pour their money into Chinese market. In addition, it presented various possibilities of China's future in 2010 that can help investors expand their thinking about china.

Emily Thoronton, "Must Sell," Far Eastern Economic Review, October 27, 1994, p.8

This article gave me information specific on Sweden electric company that will soon open a joint venture in China. I think this is another good example to show the success of China's reform to attract foreign investors. The company believed that there was no other market that could potentially offer it the same returns as china.

Forestier, Katherine, "China Investors Play A New Game," Asian Business, September 1994, Vol.30, Iss.9, p.20-24.

This article was used as a supporting document within the paper. It contained information about foreign companies' concern now in doing business in China. They are concerned with making and selling their products locally. They are now moving beyond establishing a testing the market. They are diversifying into a variety of joint ventures in more places than ever before. Additionally, in this article, the experiences of a number of firms in China were discussed.



Frederick Crook, "Seeds of Change," The China Business Review, November-December 1994, p.20-26.

One of the supporting articles, this contained information about the current status of Chinese agricultural sector. Predicting China's future agricultural production is complicated by variations in its yearly harvests, so China is likely to buy more it sells. This also shows good trends for foreign producers to export their products to China. I was confirmed by this article that there are such opportunities there.

Horowitz, Rose, "China's Ports Get with It," International Business, April 1994, Vol.7, Iss.4, p.44

This article showed me the opportunity in exporting to China. This was because the upgrading of distribution services at China's ports had changed dramatically. As a result, US companies, especially retailers, found that shipping their goods through mainland China's ports is cheaper than using Hong Kong. I focused on this article because it helped me to analyze the development of distribution system in China which was included in the profile of the country in this research paper.

Julie Reinganum, Tina Helsell, "To Market, To Market," The China Business Review, January-February 1994, p.30-34.

This article was very interesting because it explained in details how distribution system in China changed. The authors started explaining with the old system that posed many obstacles to foreign products entered the country. Then, they explained the transition period of distribution system that allowed companies to sell goods directly to end-users. Finally, they described the problems and showed the solutions how to encounter these problems.

Kiichiro Fukasaku, "China's Growing Presence," The OECD Observer, August-September 1994, p.32-34

From this article, I got information about the important objectives of market reform in China. The Chinese government has decentralized its system of central planning with more reliance on market focus. Additionally, it showed patterns in trade and investment in China during the past 15 years.

Kym Anderson, "Unfinished Business," The OECD Observer, August-September 1994, p.35

This article provided me with information about new characteristics of Chinese market. The author concluded that economic reform in china is a continuing process. To spur investment, the government should continue to remove barriers of foreign trade and investment.

Larocque, Alain, "Piercing Import Barriers," The China Business Review, May-June 1994, Vol.21, Iss.3, P.41-43.

One of the support articles, this contained information on import duties in china and how to avoid them. this article also suggested foreign companies that they must carefully examine all import and distribution channels to stay competitive in China.

Marayama, Nobus, "Market Open, Capital Pours in, and Business Clusters on China's Coast," Tokyo Business Today, September 1993, Vol.61, Iss.9, P.12-15.

This article contained information about China's policies to attract foreign capital. Foreign and domestic capital continue to concentrate in coastal areas. China has also liberalized imports through tariff reduction. Overall, investment in China has increased and swung toward manufacturing.

Maynard Roberta, "Reducing The Risk of Doing Business in China," Nation's Business, Nov.1994, Vol.82, Iss.11, P.12

The author of this article interviewed Michael Coffin, the manager of Yamas Control Inc. He recommended a number of steps that small businesses can take when doing business, particularly joint ventures, in China.

Neumeir, Shelley, "To Get It on Growth in Asia, Try US Companies Already There," Fortune, December 27, 1993, Vol.128, Iss.16, P.27-28.

This article showed me how investors can improve their portfolios in China. The author gave the example of US companies that entered into China. These companies are COca-Cola, AT&T, Westinghouse Electric, and Boeing. I took these companies as the examples in my report.

Preston M. Torbet, "Broadening The Scope of Investment," The China Business Review, May-June 1994, p.48-55.

From this article, I got information about new legislation concerning foreign investments. This new legislation increased investment opportunities in China when foreign investors are interested in the country. However, this article focused more on Company Law that has effects on domestic companies more than foreign companies. Therefore, it is not related directly with the objectives of my paper.

Price Waterhouse, Doing Business in The People's Republic of China, 1993.

This book was used as a major source of information in this paper. It explained every aspect that investors should know in doing business in China. It was divided into 4 main sections : Investment Climate, Doing Business, Audit and accounting, and Taxation. In each section, there were many subtopics that gave me very good information related directly to my work.

Robin J Gibbons, "Power Funding," The China Business Review, November-December 1993, p.28-32

This article provided me with information regarding investment in energy, transportation and telecommunication. It talked about finding foreign capital to pay for China's new power plant. I enjoyed reading the topic of "Smoothing the investment path" in this article because the author discussed risks of investment and how to avoid those risks in China.



Ryoshin Minami, The Economic Development of China, 1993.

This book gave me several important aspects of the Chinese economy. It identified the problems that China must face to develop its economy and attempted to elucidate the structural deficiencies which lay behind the problems. This book also analyzed China's present economic situation and provided prescriptions for solving its problems by using the Japanese experience.

Scalise, David, "Comparative Study on Potential Opportunities : China, Eastern Europe, and The Former soviet Union, Industrial Management, July-August 1993, Vol.35, Iss.4, p.30-32.

This article talked about potential opportunities in China by comparing with Eastern Europe and the former Soviet Union. Obviously, each region has its own potential risks and rewards. Investors have to choose carefully through trade, direct investments and technology investments. This article also shown recent legislation and treaties in china that tried to reduce the risks involved in foreign investments.

Senoenfeld, Susan J., "Cable Ready," The China Business Review, September-October 1994, p.24-28

This article explained the option of Chinese government in order to save its budget. The author suggested the government planners that if they use cable-TV revenues to fund modernization of telecommunication systems, they could potential save \$30 billion off China's communication budget.

Serge Verma, "Looking Inland," The China business Review, January-February 1995, P.19-25

This article was informative and enlightening to me in that it explained the areas in China, where firms were attracted by preferential tax policies. Nowadays, Chinese government has developed the inland economy by opening up sectors previously off-limits to foreign investments. Additionally, it talked about supply of labor which is the one of the comparative advantages in China.

Stephen M. Shaw, Johannes Meier, "Second-Generation MNCs in China," The China Business Review, September-October 1994, P.10-15.

This article contained information about values of Chinese partners in Joint ventures. It also explained the success of China's economic progress that led MNCs already operating there. In particular, it talked about effectively managing key local partners. It also showed the attitude of foreign investors toward their local partners. In many cases, foreign investors have discovered that they and their Chinese partners have conflicting agendas.

Stoever, William, "Foreign Investors Caught Between Central and Provincial Government in China," Multinational Business Review, Fall 1994, P.8-15

This article provided me with information about rivalries between the central government ministries and provincial governments to attract foreign investments. Enterprises managers, foreign business men, Chinese and US government officials, consultants, and others were interviewed as a basis for a discussion of rivalries.

Tattum, Lyn, "Enter The Dragon," Chemical Week, August-September 1993, P.S2-S5.  
This article provided me with very good information on current growth rate in china calculated by the World Bank. Growing demand for traditional consumer goods in sectors such as electrical equipment, automobile, personal care, and household goods, as well as the needs of a modernizing infrastructure were discussed in this article. Therefore, I used this article as a major source of information in exports to China part within this report.

William H. Overholt, The Rise of China, 1994.

This is another book that showed me what make China's success. It provides an interpretive overview rather than new factual knowledge. Therefore, for those who are not specialists in this field, I recommend other books concerning the development of china.

Wood, Andrew; Young, Ian, "Overcoming Hurdles to Enter China," Chemical Week,  
August-September 1994, P.S43-S.44

This article showed me hurdles for overseas companies that want to invest in China. Despite the low labor costs, investors may face higher startup operating costs for a project. However, the authors of this article suggested the way to encounter these hurdles to enter china.

Friedrich Wu, "Steeping Out The Door," The China Business Review, November-  
December 1993, P.14-19

This article gave me information about China's trade volume after it opened its door to the world. It also gave me statistics on China's trade as well as the opportunities for exporting to China.

RESEARCH PROPOSAL FOR GRADUATE PROJECT

TOPIC : OPPORTUNITIES TO INVEST IN CHINA

RESEARCH PROPOSAL SUBMITTED TO:

PATRICK F. BUTLER

MIM 665

GRADUATE PROJECT IN INTERNATIONAL MANAGEMENT

BY:

KWANCHANOK VISESTARN

JANUARY 23, 1994

OK  
28 Jan 95  
But, the material  
offered covers  
too much.  
The focus  
must be  
tighter.  
Pick one or  
two areas.  
E.g. export-  
import  
Regulations  
Their  
impact  
on  
trade.

## Opportunities to Invest in China

This research project is designed primarily to identify Chinese import and export markets, to determine their size and potential, relative to markets in other countries, to assess the competition, and to make a decision as to whether the opportunities should be pursued. Thus, the objective is to project possible future trends within the framework of its "grand plan" ambitions to become a global superpower by the end of this century.

China's economic growth rates have attracted more and more foreign companies to set up operations there. Therefore, this research will study several factors affecting foreign companies' decisions in investing in China. Such factors are:

1. A profile of the climate ~~inductive~~ <sup>conclusive</sup> for business.

To decide to do business in a country, foreign companies should know the characteristics of the country's geography, its population, and political and legal system. All of these factors will affect doing business in that foreign country.

2. Overview of the business environment in China.

What can the foreign corporate planners do to form a picture of China's future economic development? They need to know what resources are available in China, the existing transportation and communications systems, i.e. infrastructure, and how foreign trade and balance of payments in China are. In addition, they should know the

framework of industry, government policy, labor management, and overseas trade relations.

### 3. Restrictions on foreign investment and investors.

In accordance with the overall plan of the state council, China's reform of its foreign trade system this year and next year will be moving forward. It will involve reforms in the taxation, finance, investment, state planning, and foreign exchange administration sectors. China will grant more foreign trade rights to production enterprises, science, and technology institutions. The Chinese government will speed up the liberalization process that was interrupted after the Tiananmen Square incident. They will amend the joint venture laws to make it more attractive for foreign investors, and will attempt to reduce obstacles. In addition, foreign investors should know about competition policies, import and export restrictions, consumer protection regulation, and the machinery of trade such as trademarks, patents and copyrights, protecting know-how, and inspection of goods. Foreign investors who want to do business in China need to know these regulations and use them to decide whether they are going to invest in China or not.

### 4. Foreign investment and trade opportunities.

An information about government attitude, local competitor attitude, and labor attitude toward foreign investments is also important for investors. Additionally, The Chinese government has established the foreign trade

corporations which can be regarded as huge state trading monopolies acting as agents for manufacturing units and end-user organizations in China. Investment incentives, special investment opportunities, international financial center operations, and foreign investment strategy will be discussed in this paper.

#### 5. Strategies of approaching the Chinese market.

The first thing that investors should consider in approaching the Chinese market is what the Chinese market is worth to them. Then, they have to identify opportunities that they can benefit from in this market. Finally, making contracts with appropriate corporations will make it more convenient for them to operate in China.

#### 6. Case: How existing firms run their businesses in China.

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